

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

(803) 253-4160
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March 5, 2007

Mr. Richard C. Cooke
Cooke Management Company, Inc.
Post Office Box 808
Lake View, South Carolina 29563

Re: AC# 3-MCY-J3 – Cooke Associates, Inc. d/b/a McCoy Memorial Nursing Center

Dear Mr. Cooke:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

By request of the state medicaid agency this letter also serves as an official notice of your requirement to respond with a report of planned corrective actions on the recommendations and deficiencies noted in this report within forty-five (45) days of the date of this letter. Your response should reference the audit control number and be addressed to: Division of Home Health and Nursing Facility Services, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina, 29202-8206. You are also required to simultaneously furnish a copy of your corrective action report to the State Auditor's Office.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written over a horizontal line.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/ms

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**COOKE ASSOCIATES, INC.
D/B/A MCCOY MEMORIAL NURSING CENTER
BISHOPVILLE, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-MCY-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 28, 2006

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Cooke Associates, Inc. d/b/a McCoy Memorial Nursing Center, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of Cooke Associates, Inc. d/b/a McCoy Memorial Nursing Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Cooke Associates, Inc. d/b/a McCoy Memorial Nursing Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, Cost of Capital Reimbursement Analysis, and the Comments and Recommendations sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Cooke Associates, Inc. d/b/a McCoy Memorial Nursing Center dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 28, 2006

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

MCCOY MEMORIAL NURSING CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-MCY-J3

	10/01/04- <u>09/30/05</u>
Interim Reimbursement Rate (1)	\$119.57
Adjusted Reimbursement Rate	<u>113.13</u>
Decrease in Reimbursement Rate	\$ <u>6.44</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated March 1, 2006.

MCCOY MEMORIAL NURSING CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-MCY-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$55.43	\$ 70.99	
Dietary		12.41	12.15	
Laundry/Housekeeping/Maintenance		<u>11.40</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	79.24	93.56	\$ 79.24
Administration & Medical Records	<u>\$7.05</u>	<u>8.01</u>	<u>15.06</u>	<u>8.01</u>
Subtotal		87.25	<u>\$108.62</u>	87.25
<u>Costs Not Subject to Standards:</u>				
Utilities		1.75		1.75
Special Services		-		-
Medical Supplies & Oxygen		6.73		6.73
Taxes and Insurance		3.73		3.73
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$99.46</u>		99.46
Inflation Factor (4.70%)				4.67
Cost of Capital				7.25
Cost of Capital Limitation				-
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.48
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(8.28)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$113.13</u>

MCCOY MEMORIAL NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	<u>Debit</u>	Adjustments <u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,465,981	\$ -	\$80,007 (10) 5,853 (10) 1,556 (11)	\$2,378,565
Dietary	550,698	-	9,085 (10) 1,850 (11) 7,130 (12)	532,633
Laundry	64,629	-	1,687 (10)	62,942
Housekeeping	264,754	-	7,923 (10) 160 (11)	256,671
Maintenance	176,855	-	3,451 (10) 3,725 (11)	169,679
Administration & Medical Records	443,897	-	25,000 (9) 13,442 (10) 1,113 (10) 60,474 (11)	343,868
Utilities	87,725	-	1,268 (4) 296 (11) 11,251 (12)	74,910
Special Services	-	13,904 (13)	13,904 (10)	-
Medical Supplies & Oxygen	308,702	-	7,470 (7) 11,994 (8) 272 (13)	288,966

MCCOY MEMORIAL NURSING CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Taxes and Insurance	171,098	-	5,730 (5) 4,436 (6) 865 (11)	160,067
Legal Fees	-	-	-	-
Cost of Capital	308,483	2,190 (1) 1,443 (3) <u>162 (14)</u>	244 (2) 887 (11)	311,147
Subtotal	4,842,822	17,699	281,073	4,579,448
Ancillary	-	1,983 (7) 658 (8)	-	2,641
Nonallowable	1,055,259	244 (2) 1,268 (4) 5,716 (5) 4,436 (6) 5,487 (7) 25,000 (9) 136,465 (10) 69,813 (11) <u>18,381 (12)</u>	2,190 (1) 1,443 (3) 13,632 (13) 162 (14)	1,304,642
Total Operating Expenses	<u>\$5,898,081</u>	<u>\$287,150</u>	<u>\$298,500</u>	<u>\$5,886,731</u>
Total Patient Days	<u>42,912</u>	<u>-</u>	<u>-</u>	<u>42,912</u>
Total Beds	<u>120</u>			

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$84,950	
	Cost of Capital	2,190	
	Accumulated Depreciation		\$43,497
	Other Equity		41,453
	Nonallowable		2,190
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	244	
	Cost of Capital		244
	To adjust depreciation expense to comply with capital cost policy State Plan, Attachment 4.19D		
3	Cost of Capital	1,443	
	Nonallowable		1,443
	To adjust amortization expense State Plan, Attachment 4.19D		
4	Nonallowable	1,268	
	Utilities		1,268
	To reclassify expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Retained Earnings	29,875	
	Nonallowable	5,716	
	Accrued Property Taxes		29,861
	Taxes and Insurance		5,730
	To adjust property tax expense and related accrual HIM-15-1, Sections 2302.1 and 2304		
6	Nonallowable	4,436	
	Taxes and Insurance		4,436
	To adjust liability and general insurance expense HIM-15-1, Section 2304		

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
7	Ancillary	1,983	
	Nonallowable	5,487	
	Medical Supplies		7,470
	To reclassify expense to the proper cost center and remove expense related to unliquidated liabilities HIM-15-1, Section 2305 DH&HS Expense Crosswalk		
8	Retained Earnings	11,336	
	Ancillary	658	
	Medical Supplies		11,994
	To properly charge expense applicable to the prior period and reclassify expense to the proper cost center HIM-15-1, Section 2302.1 DH&HS Expense Crosswalk		
9	Nonallowable	25,000	
	Administration		25,000
	To reclassify expense to the proper cost center State Plan, Attachment 4.19D		
10	Nonallowable	136,465	
	Nursing		80,007
	Restorative		5,853
	Dietary		9,085
	Laundry		1,687
	Housekeeping		7,923
	Maintenance		3,451
	Administration		13,442
	Medical Records		1,113
	Special Services		13,904
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

MCCOY MEMORIAL NURSING CENTER
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
11	Nonallowable	69,813	
	Nursing		1,556
	Dietary		1,850
	Housekeeping		160
	Maintenance		3,725
	Administration		60,474
	Utilities		296
	Taxes and Insurance		865
	Cost of Capital		887
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
12	Nonallowable	18,381	
	Dietary		7,130
	Utilities		11,251
	To remove cost not related to patient care HIM-15-1, Sections 2102.3 and 2328		
13	Special Services	13,904	
	Medicaid Supplies		272
	Nonallowable		13,632
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
14	Cost of Capital	162	
	Nonallowable		162
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$413,311</u>	<u>\$413,311</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MCCOY MEMORIAL NURSING CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MCY-J3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.63785</u>	<u>2.63785</u>	
Deemed Asset Value (Per Bed)	41,198	41,198	
Number of Beds	<u>88</u>	<u>32</u>	
Deemed Asset Value	3,625,424	1,318,336	
Improvements Since 1981	26,193	8,570	
Accumulated Depreciation at 9/30/03	<u>(1,158,134)</u>	<u>(260,011)</u>	
Deemed Depreciated Value	2,493,483	1,066,895	
Market Rate of Return	<u>.0531</u>	<u>.0531</u>	
Total Annual Return	132,404	56,652	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	132,404	56,652	
Depreciation Expense	77,208	43,440	
Amortization Expense	-	1,443	
Capital Related Income Offsets	-	-	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	209,612	101,535	\$311,147
Total Patient Days (Actual)	<u>31,469</u>	<u>11,443</u>	<u>42,912</u>
Cost of Capital Per Diem	\$ <u>6.66</u>	\$ <u>8.87</u>	\$ <u>7.25</u>

COMMENTS AND RECOMMENDATIONS

Our agreed-upon procedures identified certain conditions that we have determined to be subject to correction or improvement. We believe these conditions should be brought to your attention.

TRANSACTION CLASSIFICATION

The Provider classified a significant number of transactions to improper accounts and cost centers.

Guidance for the proper classification of transactions is provided in the South Carolina Department of Health and Human Services Medicaid Nursing Home Accounting and Reporting Manual (Expense Crosswalk), the State Plan under Title XIX of the Social Security Act, Medicaid Bulletins and South Carolina Department of Health and Human Services directives.

By failing to classify transactions in accordance with the administering agency's guidelines, the Provider misstated several accounts and cost centers.

We recommend the Provider establish and implement necessary controls to ensure that all transactions are properly classified in accordance with South Carolina Department of Health and Human Services guidelines.

MEAL AND VENDING MACHINE SALES

Income from meal and vending machine sales was not deposited in the facility operating account. Funds generated from these sales were retained by the owners and used to make minor purchases for the facility, similar to a petty cash fund.

A system of good internal accounting control requires that all cash received be deposited intact.

By failing to deposit these receipts, the Provider is unable to readily document income derived from meal sales and vending machines, and has understated income and overstated reimbursable expenses.

We recommend the Provider establish and implement the necessary controls to ensure that all cash received is deposited timely and intact.

2 copies of this document were published at an estimated printing cost of \$1.43 each, and a total printing cost of \$2.87. Section 1-11-125 of the South Carolina Code of Laws, as amended requires this information on printing costs be added to the document.